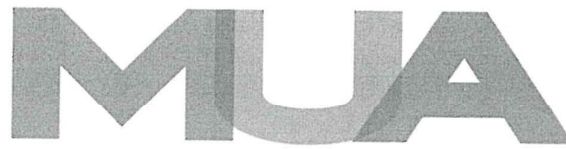


The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR MANAGEMENT AND LEADERSHIP
/BACHELOR OF COMMERCE

BML 300 & BCM217: COST ACCOUNTING

DATE: 9th DECEMBER 2014

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

A. For years, Wairegi Contractors, operated with virtually no system of budgets whatever. Management contented that budgeting was not well suited to the firm's type of operation. Moreover, management pointed out that the firm was already profitable. Indeed, outward the company gave every appearance of being a well managed, smoothly operating organization. A careful look within, however, disclosed that day to day operation were far from smooth, and often approached chaos. The average day was nothing more than an exercise in putting out one brush fire after another. The cash account was always at crisis levels. At the end of a day, no one ever knew whether enough cash would be available the next day to cover required loan closings. Departments were uncoordinated, and it was not uncommon to find that one department was pursuing a course that conflicted with the course pursued by another department. Employee morale was low, and turnover was high. Employees complained bitterly that when a job was well done, nobody ever knew about it.

Required:

- i) Identify the main weaknesses that are ailing Wairegi Contractors (3 Marks)
- ii) Advise management as to why they should or should not embrace planning and budgeting (4 Marks)
- iii) Do you think Wairegi's structure around financial planning can interfere with employee motivation? (4 Marks)

B. WOOM Ltd. currently pays direct production workers on a time basis at a rate of Ksh650 per hour. In an effort to improve on productivity, the company plans to introduce the Rowan Scheme's bonus based formula. This is intended to take effect from week 10.

The standard time allowed for a worker in the production department to perform his particular operation once, has been agreed at 42 minutes. In week 09, Employee No. 0070/B, a machinist, worked for a total of 48 hours and

performed 90 operations. In week 10, the same employee worked for a total of 49 hours and performed 98 operations.

Required:

- i) Calculate the gross wage, for employee No. 0070/B for Week 10 at Ksh650 per hour plus the productivity bonus. (4 Marks)
 - ii) Determine the efficiency ratio for employee No. 0070/B for each of weeks 09 and 10. (4 Marks)
 - iii) Provide a brief comment on your solution in (ii) above. (2 Marks)
- C. The management of Ushikamano Ltd is not convinced why they need a good costing system for the company. As a cost accountant, explain to management why you believe a good costing system is key for Ushikamano. (4 Marks)

QUESTION TWO

- a) Explain the key assumptions behind the Economic Order Quantity (EOQ) (4 marks)
- b) The following information is given for material KK-414

Consumption

Annual	360,000 units
Maximum	1,200 units/day
Minimum	800 units/day
Normal	900 units/day
Re-Order period	12-24 days
Re-Order quantity	32,000 units

Required:

Determine;

- i) The Re-Order Level (3 marks)
- ii) The minimum stock level (2 marks)
- iii) The maximum stock level (3 marks)
- iv) Average stock level (2 Marks)
- v) Stock turnover (1 Mark)

12
14
11
25

QUESTION THREE

a) MajiMazuri Ltd has three production departments and two service departments. The following is their budgeted factory overheads for the year ended 31 July 2013:

	Shs.	Shs.
Production departments		
A	240,000	
B	180,000	
C	<u>220,000</u>	640,000
Service departments X	86,000	
Y	<u>44,000</u>	<u>130,000</u>
		770,000

The service department costs are to be re-apportioned as per the following percentages:

	A	B	C	X	Y
X	20	30	35	-	15
Y	30	30	30	10	-

Required:

Re-apportion the service department costs to the production departments using the simultaneous equation method. **(10 marks)**

b) You are informed that the overheads are absorbed on the basis of the direct labour hours and the budgeted direct labour hours for the departments as given below:

Department A	1,000 hours
B	2,500 hours
C	4,000 hours

Required:

Determine the overhead absorption rates per hour for the three production departments.

(5 marks)

QUESTION FOUR

The following information relate to Kwetu limited, a company that produces a single product.

Number	Description	Amount (Ksh)
1.	Direct labour per unit	22
2.	Direct material per unit	12
3.	Variable overheads per unit	6
4.	Fixed costs	400,000
5.	Selling price per unit	60

- i) Define the term "break-even" (2 marks)
- ii) Use the figures above to construct a break-even chart showing the minimum number of units that must be sold for the company to break even. Fully label your diagram. (5 marks)
- iii) Calculate the number of units that must be sold in order to make a profit of Ksh. 80,000. (2 marks)
- iv) What selling price must be charged on sales of 24,000 units in order to make a profit of Ksh. 120,000? (3 marks)
- v) State four limitations of break even analysis (3 marks)

QUESTION FIVE

- a) Why do you think overhead absorption process is important for organizations? (4 marks)
- b) Katitu Ltd produces a single product which undergoes three processes. The following details relate to one period

	<u>Process</u>		
	1 (Shs.)	2 (Shs.)	3 (Shs.)
Raw materials (60,000 units)	80,000		
Material introduced	23,500	18,750	22,100
Direct Wages	15,600	12,000	13,400
Overhead allotted to processes	3,800	4,600	3,200
Other overheads are Shs. 27,000			
	Units	Units	Units
Output in units	55,200	53,800	49,600

Normal loss of 5% of the input to each process is anticipated.

Units lost have the following scrap values

Process 1	Nil
Process 2	Ksh. 1
Process 3	Ksh. 1.80

There was no opening or closing W-I-P

Required:

Prepare the following ledger accounts for the period;

- i) Process 1 Account (4 marks)
- ii) Process 2 Account (4 marks)
- iii) Process 3 Account (3 marks)

QUESTION SIX

- A manager of a renounce corporate was quoted saying "...that cost variance analysis helps improve the efficiency in operations within firm..."
Lay out a clear argument as to whether or not you support the mangers statement. (5 Marks)
- Ujuaji limited has a budget to produce 5,500 articles in 44,000 hours, with a fixed overhead of Sh. 176,000 and variable overheads of Sh. 110,000. Ujuaji's production during the period of the budget was 5,400 articles in 43,000 working hours with fixed overheard costing Sh. 180,000 and variable overheads of Sh. 116,000.

Required:

Calculate the following variances and state if they are adverse or favourable for Ujuaji.

- a) Total Overheard Variance (2 Marks)
- b) Fixed Production Overhead Variance (2 Marks)
- c) Variable Overhead Efficiency Variance (3 Marks)
- d) Variable Overheard Expenditure Variance (2 Marks)
- e) Fixed Overheard Volume Variance (1 Marks)